PACIFIC PILOTAGE AUTHORITY

ANNUAL REPORT 2011

Canada

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Chair*

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B.C. Coast Pilots Ltd.
Member

Captain J. I. MacPherson
B.C. Coast Pilots Ltd.
Member

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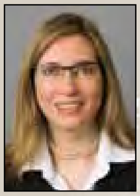
Member*



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Bruce Chadwick
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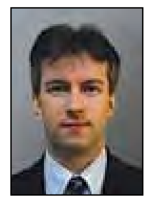

Alan Wheatley
Manager of Information Technology

Diane Street
Corporate Secretary

Pat Van Den Bosch
Manager of Accounting

Bruce Northway
Manager, Operations and Labour Relations

Isabelle Forget
Executive Assistant

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*DENOTES MEMBER OF AUDIT COMMITTEE.

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MANDATE

The mandate of the Authority is to establish, operate, maintain, and administer in the interest of safety, an efficient pilotage service within the regions set out in respect of the Authority, on a basis of financial self-sufficiency.

WEBSITE:
www.ppa.gc.ca

OFFICES:

HEAD OFFICE:
1000 - 1130 West Pender Street
Vancouver, British Columbia
V6E 4A4

TEL: 604.666.6771
FAX: 604.666.6093 DISPATCH
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EMAIL: info@ppa.gc.ca

DISPATCH OFFICES:
1000 - 1130 West Pender Street
Vancouver, British Columbia, V6E 4A4

211 Dallas Road,
Victoria, British Columbia, V8V 1A1

PILOT BOARDING STATIONS:
Sandheads, off Steveston
Brotchie Ledge, off Victoria
Cape Beale, off Port Alberni
Triple Island, off Prince Rupert
Pine Island, off Port Hardy

CORPORATE OBJECTIVES

To provide safe, reliable and efficient marine pilotage and related services in the coastal waters of British Columbia, including the Fraser River;

To provide the services within a commercially-oriented framework, by maintaining financial self-sufficiency, through a combination of cost management and tariffs that are fair and reasonable;

To achieve the highest productivity of the Authority's resources in the interest of safe navigation;

To implement sustainable practices within the Authority and contribute to government's environmental, social and economic policies as they apply to the marine industry on the Pacific coast of Canada;

To assume a leadership role in the marine industry we serve, by facilitating decisions resulting in improvements to navigational safety and the efficiency of marine operations.

MISSION STATEMENT

The Pacific Pilotage Authority is dedicated to providing safe, efficient pilotage by working in partnership with pilots and the shipping industry to protect the interests of Canada.

CORPORATE VALUES

Management and Board members review the Authority's Corporate Values annually to ensure their continued relevance and applicability. The Corporate Values are:

Honesty/Integrity - We will ensure honesty and integrity in everything that we do. We share responsibility for being effective, accountable and acting appropriately. We consider the outcome of decisions for all those affected before we implement change. We act with visible integrity and openness, and support each other in these actions.

Positive Stakeholder Relations - We will work hard to maintain positive relations with all stakeholders including the shipping industry, the pilots and their respective organizations, our employees, the communities in which we operate and all other related individuals and organizations.

Service Quality - We strive for excellence in all our activities. We continuously learn, develop and improve. We take pride in our work and in the services we provide to our clients and partners.

Accountability/Responsibility - We are accountable, as individuals, team members and as an organization for our actions and our decisions. We make effective and efficient use of the resources provided to us. We adhere to our policies and procedures, our mission and objectives, and to the Regulations governing us. When our commitment to innovation is at odds with existing procedures, we will work within the system to achieve positive change and improvement.

Adaptability and Innovation - We value innovation and creativity. We encourage and support originality and diversity of thought. As individuals and as teams, working with our internal and external partners, we welcome new ideas and methods to enhance our service and the use of our resources.

CHAIR AND CEO REPORT

Honourable Denis Lebel
Minister of Transport, Infrastructure and Communities
Tower C, 29th Floor
Place de Ville
Ottawa, Ontario K1A 0N5

February 13, 2012

Dear Sir:

On behalf of the Board of Directors and management of the Pacific Pilotage Authority, we are pleased to submit our Annual Report for the year ended December 31, 2011.

2011 traffic volumes exceeded 2010 levels by six percent overall, with total pilotage assignments rising to 13,244 from 12,443. The resulting improvement in our financial results enabled the Authority to retire a $3.6 million bank loan early and add a further $2.2 million to our financial reserves. This solid financial position provides security against a potential traffic reversal as well as affording industry some relief in the timing of future tariff increases.

The year was exceptionally busy on several fronts. Two long-term collective agreements were successfully concluded, covering launch, dispatch and office employees, with six and seven year durations respectively. A five-year service agreement to December 31, 2016, was also concluded with the British Columbia Coast Pilots. There were no service disruptions, reflecting the responsible approach taken by all concerned.

In keeping with the Authority's stated intent to be a positive contributor to Pacific Gateway initiatives, extraordinary time and expense was directed to assisting industry achieve expansion goals by increasing vessel drafts through the Second Narrows and by developing and delivering factual information regarding ship safety, specifically with regard to the Enbridge Northern Gateway Pipeline project.

The Authority's enterprise risk management program has been embedded into all aspects of the organization. During 2011, the program was expanded and improved further, as detailed in the Annual Report.

The Authority's key performance indicators reflect a high degree of responsiveness to the needs of our customers. During the year, 99.99% of dispatches were error free and 99.97% of assignments were completed without delay. With respect to safety, only five minor incidents were posted in 2011, resulting in an incident free level of 99.96%.

We believe that we have again been very successful in carrying out our mandate of providing safe, reliable and efficient marine pilotage in the coastal waters of British Columbia. We continue to uphold the philosophy of "full engagement", with regular interface between the marine industry we serve and the pilots carrying out the work.

The Authority's 2012 Business Plan and Budget reflect a cautious approach in a climate of continuing economic uncertainty. Benefitting from a strong and varied traffic base, and a solid financial position, we will continue to deliver safe, reliable and efficient marine pilotage services to all stakeholders.

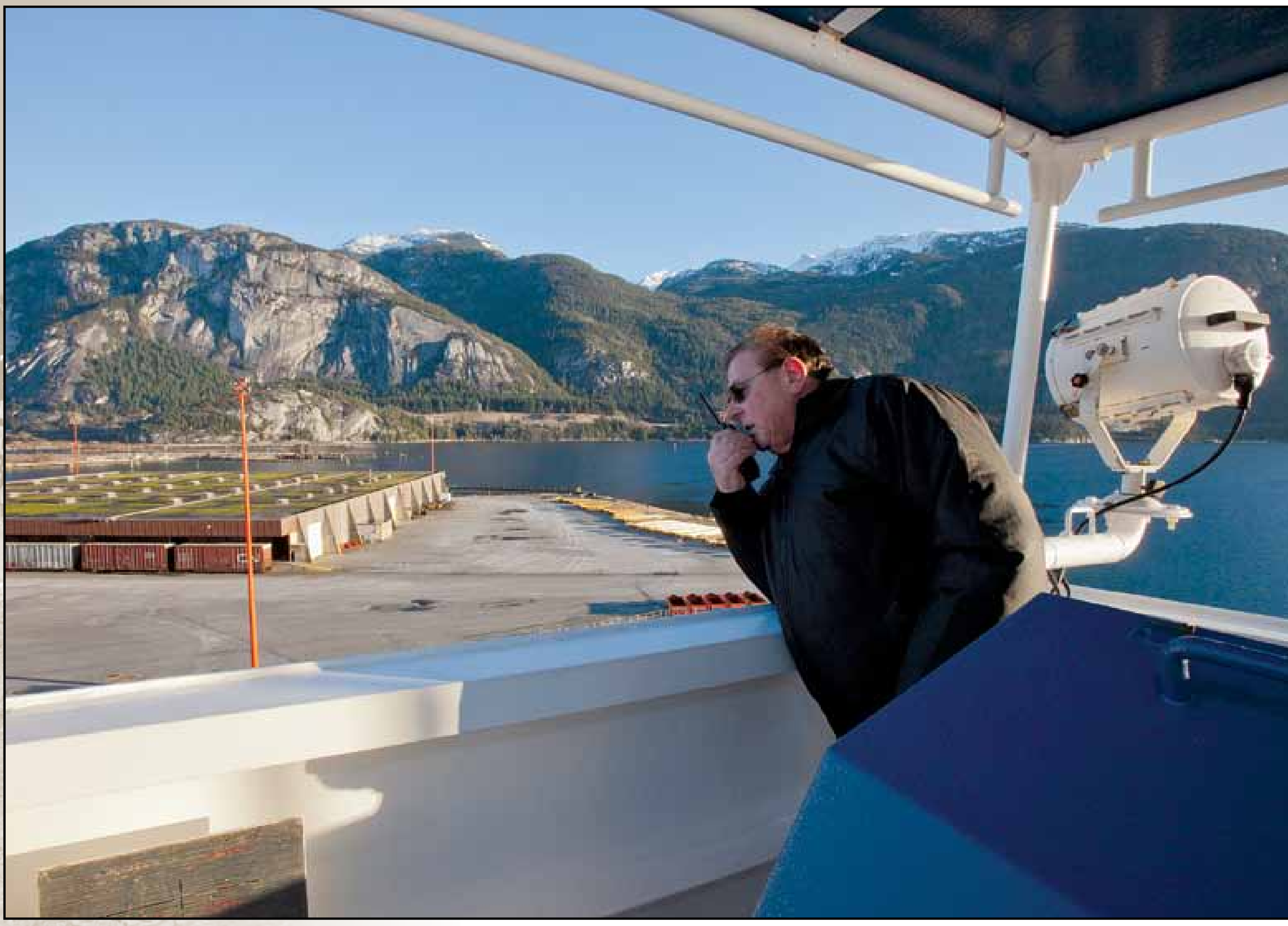
We remain positioned to achieve our Vision of becoming a world leader in marine pilotage by 2014 and we look forward to the continuation of the excellent relationships we enjoy with the government, industry and pilots.

We express our appreciation to our dedicated Board of Directors and the management and staff of the Authority.

Respectfully submitted,

David K. Gardiner
Chair

Kevin Obermeyer
President and Chief Executive Officer



WHAT IS THE PACIFIC PILOTAGE AUTHORITY

International vessels of 350 gross tons or larger, while travelling in Canadian waters, are legally obliged to use the services of a Canadian marine pilot as per the Pilotage Act. The Pacific Pilotage Authority is a federal Crown corporation whose mandate is to administer this service in the waters of Western Canada. Our area of jurisdiction encompasses the entire British Columbia coast, extending approximately two nautical miles from every major point of land. This jurisdiction includes the Fraser River and stretches from Alaska in the north to Washington State in the south and is one of the largest in the world.

Marine pilotage is all about safety as it serves to protect the environment and thus the interests of the Canadian people. We hold ourselves accountable to the Canadian public in this regard.

CORPORATE GOVERNANCE

Corporate governance is the process of establishing and monitoring, the policies and procedures which will ensure the appropriate stewardship of the business and affairs of the Authority, including financial viability.

The Authority's Board of Directors comprises a Chair, two pilot representatives, two shipping industry representatives and two representatives of the public interest. This structure provides effective channels of communication and represents a good balance among the major stakeholders. The Board has full access to all books, records, facilities, and personnel of the Authority.

The Chair and three Board members are also designated as members of the Audit Committee. The Audit Committee's primary role is to assist the Board of Directors to oversee and objectively assess the accuracy and integrity of the Authority's financial reporting and statements, plans and reports and its relationship with the Auditors.

The Authority complies with the Treasury Board guidelines on corporate governance practices. This includes Board self assessments, a nomination committee for prospective Directors and the development of Directors' skills. In addition, the Board has constituted several other committees to focus on the major areas of the Authority including safety, risk management, pilot training, governance, nominating and human resources.

ORGANIZATIONAL STRUCTURE OF THE AUTHORITY

The Authority is managed by a President and CEO who reports to the Board through the Chair.

There are seven management employees, seven employee pilots, eleven dispatchers, six administrative and twenty-six launch employees.

Ninety-eight entrepreneur marine pilots provide coastal pilotage services through their company, the British Columbia Coast Pilots Ltd.

Management Disclosure and Analysis

OVERVIEW OF OPERATIONS – YEAR OF 2011

The 2011 traffic levels continued to build upon the strong 2010 levels. It is a credit to our employees and contract pilots that we can service the higher traffic levels with the existing workforce and very little incremental cost. Our service model is positioned to respond quickly and effectively to traffic fluctuations to ensure a seamless delivery of pilotage service, which is vital to the success of the Asia Pacific Gateway.

During the year we saw both increases and decreases in commodity tonnages throughout our jurisdiction. Tonnage variances do not always directly correlate with our assignment levels since vessel size and cargo volumes are variable.

The Authority's customer base remains well diversified yet very dependent on resource commodities. For export we saw increased assignments in the coal, grain, forest products, potash and sulphur sectors. Assignments in the petroleum sector decreased slightly. Looking at our import sectors, container assignments increased slightly while automobiles remained comparable year over year.

The cruise sector was very comparable to the prior year. This is welcome news after the decrease of assignments in 2010 due to repositioning by cruise lines.

Our financial model is based upon annual assignments in the 11,500 range which will result in a breakeven year. Once this threshold is exceeded the Authority's net income will increase. The financial benefit of the increased assignment levels in 2011 is reflected on our balance sheet. We increased our financial reserves by $2.2 million and paid off a long term bank borrowing of $3.6 million. In short, the Authority ended the year debt free with $5.2 million of financial reserves held in low risk, Government of Canada bonds. As we are self-funding and prohibited from seeking Parliamentary appropriations it is essential we have strategies to ensure adequate funds, control debt and fund capital asset replacement.

The Authority and Port Metro Vancouver (PMV) jointly funded a vessel under keel clearance study during the year. A vessel's draft increases the faster it moves through the water resulting in lower under keel clearances. As a general rule, an allowance of ten to fifteen percent of the vessel's draft is allowed for the sinkage. The study will provide more detailed information to warrant the accuracy of the allowance needed by type of ship. The end result will further contribute to ongoing safe navigation and increased loading capacities.

Pilot training and skills enhancement remains a major focus for the Authority as we spent $547,000 during the year. Five coastal apprentice pilots were started on December 1st and it is expected they will receive their licenses in 2012. Additionally, one Fraser River pilot was licensed during the year to replace a retiring employee pilot.

The Authority's Enterprise Risk Management (ERM) was further enhanced during the year and the details are included in a separate section of this report. During the year, the ERM Committee conducted a scenario planning exercise with over thirty attendees from eight different agencies. Of particular note, the attending agencies included the US Coast Guard, Washington State Department of Ecology and Puget Sound Pilots as the scenario involved our shared waterways. This level of inter-government and cross border involvement has not been attempted before.

The Authority continues a Community Outreach program with the objective of ensuring these communities fully understand the role of the Authority and how we provide safe, reliable and efficient marine pilotage services in the waters of British Columbia. Additionally, the Authority along with the BCCP participate in annual job fairs with the objective to promote the idea of marine pilotage as the culmination of a sea-going career.

The Authority continues to value its excellent relationship with industry and pilots and works hard to sustain these relationships. As a measure of our success we have seen both of these parties become major allies in attaining our common goals.

In summary, 2011 continued the positive momentum of the prior year. Sustained traffic levels drove increased earnings which allowed the Authority to retire debt and add to financial reserves.

TRAFFIC

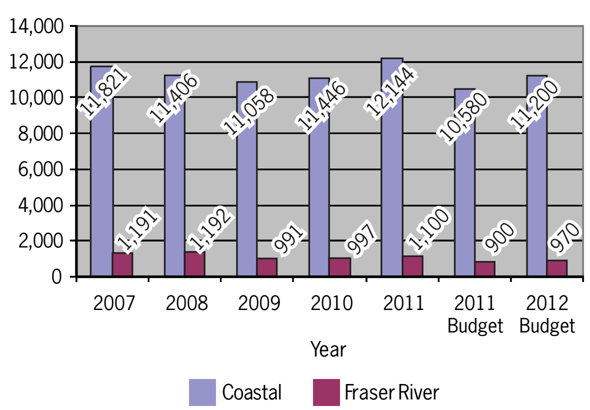
We noted higher assignment levels in both the coastal and River areas. Coastal trips increased by 698 assignments (6 percent) while the Fraser River trips increased by 103 assignments (10 percent) when compared to the prior year.

We previously mentioned the diversification within the Authority's customer base between commodity sectors and import and export cargoes. These are highlighted in the table below.

Annual Trips by Commodity Sector - Coastal and River

Commodity	Actual 2010	%	Actual 2011	%	Budget 2011	%	Budget 2012	%
Automobiles	972	8%	954	8%	960	9%	880	8%
Containers	1,650	14%	1,838	15%	1,608	15%	1,650	14%
Cruise	863	7%	878	7%	878	8%	880	8%
Coal	897	8%	926	7%	970	9%	920	8%
Grain	1,530	13%	1,657	13%	1,142	11%	1,400	12%
Petroleum	549	5%	426	3%	568	5%	500	4%
Forest Products	1,441	12%	1,644	13%	1,448	14%	1,700	15%
Potash and Sulphur	467	4%	547	4%	472	4%	520	5%
Vancouver Anchorages	1,465	13%	1,440	12%	1,130	11%	1,200	10%
Other	1,854	16%	2,212	18%	1,504	14%	1,820	16%
Total Trips	11,688	100%	12,522	100%	10,680	100%	11,470	100%

Exhibit 1 - Annual Pilotage Assignments



Pilotage trips in excess of eight hours require the services of a second pilot. Safety considerations remain paramount as the pilot is allowed to work a maximum of eight hours before an appropriate rest break is required. In an average year, the Authority will perform in the range of 750 second pilot assignments. Most cruise ships heading north or south fall into this category, along with certain northern assignments, such as Kitimat and Stewart.

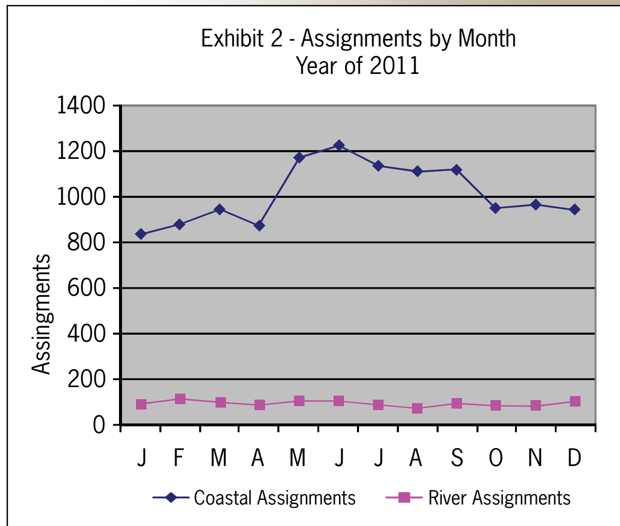
Exhibit 1 has expanded on the annual trips shown above and includes 722 second pilot assignments for 2011.

During 2011 the Authority contracted with the British Columbia Coast Pilots Ltd., a partnership of 98 entrepreneur pilots, who performed 12,144 coastal assignments.

Fraser River assignments were performed by seven employee pilots who performed 1,100 River assignments.

TRAFFIC

The Authority's monthly traffic pattern is very consistent year over year. There is a seasonal spike due to the cruise ship sector during the months of May through September.



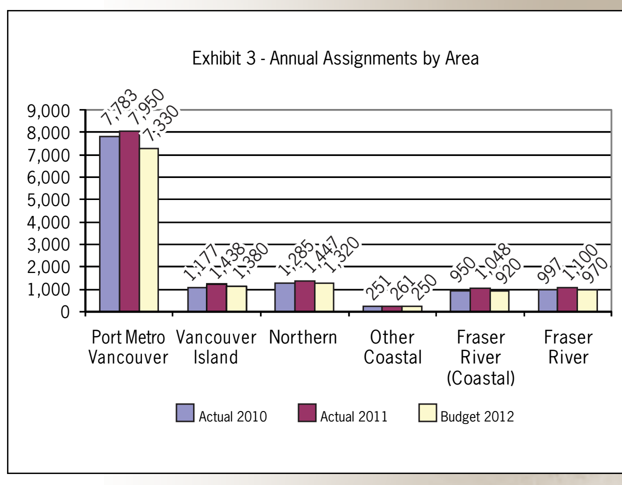
The Authority categorizes its assignments into four key traffic areas: Port Metro Vancouver, Vancouver Island, Northern and Fraser River.

Port Metro Vancouver (PMV), which includes Roberts Bank and Deltaport, is the largest traffic centre representing 65 percent (68 percent in 2010) of all coastal assignments performed by the Authority.

Export commodities shipped through PMV include grains, forest products, coal, sulphur, potash, chemicals and petroleum products.

Vessel trips remained comparable to the prior year and the Authority is budgeting for a small decrease in expectation of fewer grain assignments in 2012.

Vancouver Island assignments accounted for 12 percent (10 percent in 2010) of the Authority's coastal pilotage assignments. During 2011, this area benefited from favourable market conditions in the forest product sector which are expected to continue into 2012. Ogden Point in Victoria remains a positive contributor serving cruise ship traffic transiting to Alaska.



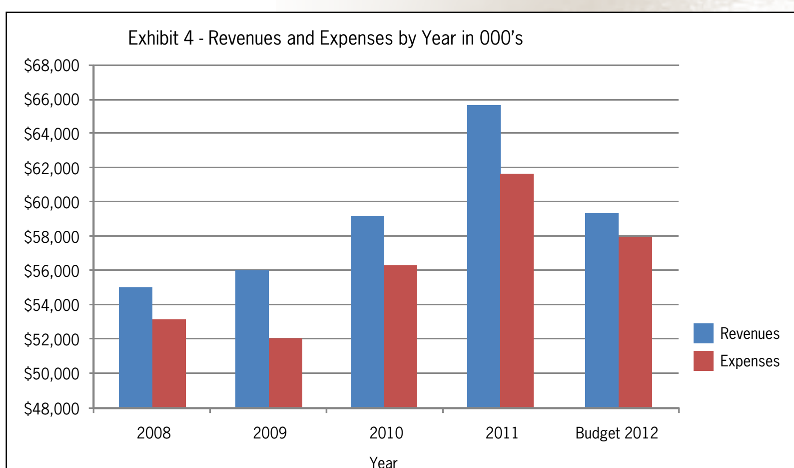
The Northern area includes Prince Rupert, Kitimat and Stewart. The Authority provides services to Ridley Island Coal which increased its tonnage over the prior year by 16 percent yet the Authority's assignments dropped for this terminal. This is the effect of larger vessels loading to a greater capacity. On the other hand, Ridley Island Grain and the Fairview container dock increased their tonnages by 17 and 20 percent respectively and the Authority benefited with increased assignments. All of these terminals are located in the Prince Rupert port.

Fraser River traffic for 2011 increased to 1,100 assignments (2010 was 997) which is a 10 percent increase. The River has two automobile terminals and one major bulk terminal. The automobile terminals decreased slightly while the bulk terminal increased. The River requires the services of a coastal pilot for the transit to and from the Sandheads boarding station which is located at the mouth of the Fraser River.

FINANCIAL COMMENTARY

For 2011 the Authority recorded a net income of $4.0 million. Included in the 2011 annual revenues is $1.5 million generated by the launch replacement and portable pilotage unit (PPU) fees. These revenues are generated by a $180 and $20 charge, respectively, per boarding that is intended to finance capital projects. The PPU fee was cancelled by a Board motion during 2011 thus reducing cost to industry. The launch replacement program will be fully funded at the end of the 3rd quarter in 2012 at which time it will be cancelled.

If the launch replacement and PPU revenues are taken out of the 2011 net income mentioned above it decreases to $2.5 million.



FINANCIAL COMMENTARY

On January 1, 2011 the Authority implemented a 2.9 percent tariff increase with the written support of industry. The increased tariff was intended to match increased contractual costs from service and collective agreements.

The positive 2011 financial results exceeded expectations and were mainly traffic driven. The 2011 budget, prepared in September 2010, had originally forecast a net loss of $727,000. The favourable variance of $3.2 million, between the budget and the actual results represents 5 percent of annual revenues and can be attributed to certain key factors:

1. The 2011 coastal budget was decreased by 850 assignments (7 percent) from the 2010 actual due to our concerns with the grain crop. Instead of decreasing, the 2011 actual traffic increased by 700 assignments (6 percent) over 2010 actual.
2. The Fraser River was 'budgeted conservatively' at 900 assignments due to ship draft limitations. For 2011 the river finished at 1,100 assignments, a 22 percent increase over budget.
3. Coastal pilotage revenues are traffic driven and they exceeded budget by $7.6 million (20 percent) which was in line with the actual assignment volumes. Since the BCCP are paid by the assignment the Authority benefited from an additional margin on the revenue gain and along with a lower BCCP payout ratio, this sector's profit margins exceeded budget by $1,800,000.
4. Fraser River pilotage revenues followed the increasing traffic trend and exceeded the budget by $470,000. The seven employee pilots are paid an annual salary and once accounting for the high volume allowance this sector's total profit margins exceeded the budget by $360,000.
5. Travel revenues were in line with the increased trips so the net margins were very close to budget. In total, this sector's profit margins exceeded budget by $120,000.
6. Pilot launch revenues are traffic driven and produced similar positive results to the coastal and River margins previously mentioned. The employee crewed stations at Brotchie, Sandheads and Triple Island generated revenues of $930,000 in excess of budget. These revenues were offset by increased wage costs to service the traffic ($200,000), a labour contract increase of 3 percent due to a CPI clause (budget was 1.5 percent) which effected the year by $65,000 and a signing bonus of $90,000 relating to the seven year contract. Unbudgeted engine repairs of $240,000 in excess of the budget negated some of the positive revenue variances. In total, this sector's profit margins exceeded budget by $335,000.
7. Apprentice pilot costs ended the year $530,000 favourable to budget as we licensed two apprentices compared to a budget of eight apprentices.
8. Senior pilot training ended the year $380,000 favourable to budget as the pilots did not approach the anticipated training levels. This variance is the reverse of 2010 where we exceeded budget by $480,000.
9. Interest expense ended the year with a small unfavourable variance of $50,000 as we absorbed a loan breakage fee into 2011 when retiring our debt.
10. Salaries and benefits were effected by the same factors that influenced launch wages. A contract settlement at 3 percent due to a CPI clause (budget was 1.5 percent) and a signing bonus relating to a six year contract resulted in $150,000 of additional costs.

Exhibit 5 details the comparisons of the major revenue and expense categories along with the 2012 Budget.

Since inception in 1972 the Authority has been financially self-sufficient and continues to structure its finances in order to maintain this position.

Exhibit 5				
	Actual	Budget	Variance	Budget
Revenue Categories (000's):	2011	2011	to Budget	2012
Coastal pilotage	$46,212	$38,597	$7,615	$41,840
River pilotage	$2,425	$1,952	$473	$2,120
Travel	$6,683	$5,794	$889	$6,200
Launch	$8,694	$7,176	$1,518	$7,970
Launch replacement fee	$1,486	$1,300	$186	$950
Portable pilot unit fee	$49	$148	($99)	$0
Other income	$248	$100	$148	$120
Total Revenues	$65,797	$55,067	$10,730	$59,200
Expense categories (000's):				
Contract pilot's fees	$39,759	$33,940	($5,819)	$36,670
Pilot launch costs	$7,839	$6,619	($1,220)	$7,280
Transportation and travel	$5,399	$4,631	($768)	$5,010
Staff salaries and benefits	$3,268	$3,100	($168)	$3,260
Employee pilot's salaries and benefits	$2,149	$2,040	($109)	$2,100
Other expenses	$2,787	$2,556	($231)	$2,980
Pilot training	$547	$1,460	$913	$920
Total Expenses	$61,748	$54,346	($7,402)	$58,220
Net Income (Loss)	$4,049	$721	$3,328	$980
Net Income (Loss) excluding launch and PPU fees	$2,514	($727)	$3,241	$30

Exhibit 6 compares the major expense categories as a percentage of total expenses for the year 2011.

Similar to prior years, approximately 80 percent of the Authority's total annual expenditures for the year were covered by either a service contract or collective agreements.

Exhibit 6 - Actual Expense Categories 2011

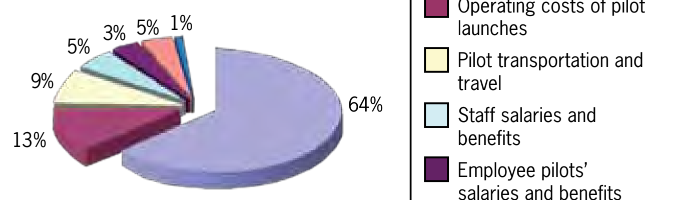


Exhibit 7						
		Historical Financial Summary (in thousands of dollars)				
	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Budget 2012
Financial Results						
Revenues	$52,738	$55,076	$55,925	$59,260	$65,797	$59,200
Expenses	$51,227	$53,146	$51,990	$56,213	$61,748	$58,220
Net Income (Loss)	$1,511	$1,930	$3,935	$3,047	$4,049	$980
Financial Position						
Current Assets	$7,006	$7,572	$10,216	$12,418	$12,428	$13,064
Current Liabilities	$8,282	$10,065	$9,181	$9,552	$6,740	$7,288
Working Capital	($1,276)	($2,493)	$1,035	$2,866	$5,688	$5,776
Net Capital Assets	$8,844	$11,187	$10,629	$11,282	$10,477	$10,380
		Operating Indicators (Actual)				
Average Number of Pilots						
Coastal	96	98	99	98	98	98
Fraser River	8	8	7	7	7	7
Number of Assignments						
Coastal	11,821	11,406	11,055	11,446	12,144	11,200
Fraser River	1,191	1,192	991	997	1,100	970
	Average Pilotage Revenue per Assignment (Actual $)					
Coastal	$3,171	$3,358	$3,531	$3,635	$3,805	$3,736
Fraser River	$1,934	$2,041	$2,113	$2,136	$2,205	$2,186

INCIDENT REPORTING

The Authority categorizes incident and accident reporting into three types of investigations. An incident or accident will not be classified until sufficient facts are available to assess the potential for safety improvements and may require on site evaluation or interviews.

Class "A" Investigations

Defines an investigation that has a high probability of improving navigation safety, in that, there is a significant potential for reducing the risk to persons, vessels or the environment.

Class "B" Investigations

Defines an investigation that has a medium probability of improving navigation safety, in that, there is a moderate potential for reducing the risk to persons, vessels or the environment.

Class "C" Investigations

Defines an investigation that has a low probability of improving navigation safety, in that, there is a limited potential for reducing the risk to persons, vessels or the environment.

Exhibit 8 shows the actual number of incidents the Authority has recorded over the last five years.

Exhibit 8					
Year	Incident Free Assignments	Total Incidents	Class A	Class B	Class C
2007	99.947%	7	0	0	7
2008	99.969%	4	0	0	4
2009	99.950%	6	0	2	4
2010	99.984%	2	0	0	2
2011	99.962%	5	0	0	5

The Authority has endorsed an Enterprise Risk Management (ERM) program.

ERM has been incorporated as part of the Authority's strategy with the intention of 'cultivating a culture of enterprise risk awareness'.

All areas of the Authority have been incorporated into this program, including entrepreneur and employee pilots, launches, dispatch and administration, along with the Board and management. ERM updates and mini-risk exercises are regularly included on the agendas of staff meetings.

The ERM Committee is chaired by a Board member and includes representation from each of the areas mentioned above. The risk register and action plan are regularly reviewed and adjusted by the Committee who meets quarterly. At these meetings they re-evaluate the risk register with a view to identifying new risks and ensuring adequate mitigation measures are in place.

During 2011 the program was revamped and the risk register expanded as the Authority had previously grouped certain risks together. It is felt the new approach is a more detailed and logical way to display our risks and is not an expansion of risks.

Scenario risk exercises are planned annually with involved parties invited to participate and debrief once the exercise is completed.

The ERM committee has developed a program of scenario exercises based around the higher risk areas. Scenario planning sessions are of two types:

- Table top exercise - an around-the-table walkthrough which is a high level discussion of how a particular event would be handled.
- Full scenario rehearsal - a hypothetical role playing enactment which aims to test all participants' responses to an event by simulating as closely as possible the real conditions surrounding the event.

During 2011 two exercises were held, one in April (table top) and the other in September (full scenario) involved thirty participants in a cross-border waterway situation.

The Authority remains committed to ensuring all risks have appropriate mitigation measures in place that are reviewed on a regular basis. Detailed risk descriptions and mitigation measures are kept current by the risk owners and are part of a comprehensive risk document. They are not included in this summary version due to their length.

Risk Categories

The Authority has categorized its risks in order to assist in identification and management of the risk.

- Strategic risk: risks emanating from the Authority's strategy and decision making.
- Financial risk: liquidity, capital availability, capital structure.
- Organizational risk: risks emanating from the Authority's management of its human resources including leadership depth and quality, management and labour availability and cost, cultural, etc.
- Operational risk: risks emanating from the Authority's day to day operating processes and activities.
- External risk: risks emanating from external sources over which the Authority (although impacted) has little control over (e.g. macro-economic volatility; industry structural change; political, etc.).
- Legal and regulatory risk: risks associated with the Authority's compliance with applicable laws and regulations.
- Incident risk: risks emanating from incidents (accidents, near misses, etc.) within the Authority's jurisdiction where a pilot is present on board ship.
- Emerging risks: un-rated risks that the Authority will keep reviewing from time to time in order to be proactive.

Risk Ranking Methodology

Table 1 (below) shows the four risk ranking categories and the appropriate management response for each category. The ranking category allocated for each risk is determined based on the chosen likelihood rating and impact rating as per table 2.

Risk Table 1

Rating	Recommended Management Approach	Need for Mitigation Plan
LOW	No additional monitoring required. Risks will be reviewed annually to assess if any change has occurred.	Reliance on existing mitigations will be considered sufficient.
MEDIUM	Needs some additional monitoring by line management. ERM committee to be kept informed through normal processes.	A plan to strengthen the mitigation for these risks is strongly recommended.
HIGH	Needs regular monitoring by senior management and the risk committee. The Board should be kept informed through normal reporting processes.	A plan to strengthen the mitigation for these risks is required. These risk events should be considered for scenario planning exercises.
VERY HIGH	Needs urgent attention from senior management. The Board should be informed immediately of any change to the risk's status.	A plan to strengthen the mitigation for these risks is required. These risks may require a crisis management plan to be put in place.

Current Risk Ratings

The diagram below shows the spread of the identified risks based on their residual likelihood and consequence.

Current Risk

CONSEQUENCE	Very Low	Low	Medium	High	Very High
Extreme		1, 2			
Very High	8, 9	6, 7	3, 4, 5		
High	25, 26, 27, 28, 29, 30	10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20			
Medium	41, 42, 43	31, 32, 33, 34, 35, 36, 37, 38, 39	22, 23	21	
Low	47	40, 45, 46	44	24	

LIKELIHOOD

Risk Table 2

Priority	Risk Title & Background	Category	Sub-Category	Likelihood (residual)	Impact (residual)	Risk Rating
1	**Pilot Protocols and Participation in an Incident**	Strategic	None	LOW	EXTREME	HIGH
2	**Future Recruitment of Suitable Qualified Pilots**	Strategic	None	LOW	EXTREME	HIGH
3	**Maintaining Good Stakeholder Relationships with the Shareholder**	Strategic	None	MEDIUM	VERY HIGH	HIGH
4	**Maintaining Good Stakeholder Relationships with the Marine Industry**	Strategic	None	MEDIUM	VERY HIGH	HIGH
5	**Maintaining Good Stakeholder Relationships with Pilots**	Strategic	None	MEDIUM	VERY HIGH	HIGH
6	**Failure of Key IT Applications**	Operational	Technology	LOW	VERY HIGH	MEDIUM
7	**Changing Economic and Financial Conditions & Political Issues Affecting Traffic Volume**	External	Financial	LOW	VERY HIGH	MEDIUM
8	**Communication During an Incident (Media)**	Incidents	Communication	VERY LOW	VERY HIGH	MEDIUM
9	**Economic Health of BC Coast Pilots Ltd.**	External	Vendors	VERY LOW	VERY HIGH	MEDIUM
10	**Training of Coastal Pilots**	Organizational	Training	LOW	HIGH	MEDIUM
11	**Management Succession**	Organizational	Human Resources	LOW	HIGH	MEDIUM
12	**Drugs and Alcohol**	Operational	OH&S	LOW	HIGH	MEDIUM
13	**Recruiting and Training of Launch Crew**	Organizational	Training	LOW	HIGH	MEDIUM

Priority	Risk Title & Background	Category	Sub-Category	Likelihood (residual)	Impact (residual)	Risk Rating
14	**Internal and External Fraud**	Financial	Fraud	LOW	HIGH	MEDIUM
15	**Financial & Administration Systems**	Financial	None	LOW	HIGH	MEDIUM
16	**Labour Management – ILWU**	Organizational	Human Resources	LOW	HIGH	MEDIUM
17	**Labour Management – FRP**	Organizational	Human Resources	LOW	HIGH	MEDIUM
18	**Labour Management - Launch Crews**	Organizational	Human Resources	LOW	HIGH	MEDIUM
19	**Delay of Vessel due to the Authority**	Operational	None	LOW	HIGH	MEDIUM
20	**IT Vendor Issues**	Operational	Technology	LOW	HIGH	MEDIUM
21	**General Safety of Pilots**	Operational	OH&S	HIGH	MEDIUM	MEDIUM
22	**General Safety of Authority Launch Crews**	Operational	OH&S	MEDIUM	MEDIUM	MEDIUM
23	**Changes and/or Shortcomings / Errors within Industry**	External	None	MEDIUM	MEDIUM	MEDIUM
24	**Delay of Vessel due to External Issues**	Operational	None	HIGH	LOW	MEDIUM
25	**Recruiting and Training of River Pilots**	Organizational	Training	VERY LOW	HIGH	LOW
26	**HR Management for the Authority**	Organizational	Human Resources	VERY LOW	HIGH	LOW
27	**Disaster and Emergency Planning**	Operational	Hazard	VERY LOW	HIGH	LOW
28	**Incident Management Coordination Across Borders**	Incidents	Incident Management	VERY LOW	HIGH	LOW
29	**Communication During an Incident (Government)**	Incidents	Communication	VERY LOW	HIGH	LOW
30	**Traffic Management During a Cross Border Incident**	Incidents	Incident Management	VERY LOW	HIGH	LOW
31	**General Safety of Authority Office Staff and Guests**	Operational	OH&S	LOW	MEDIUM	LOW
32	**Pandemic**	Operational	OH&S	LOW	MEDIUM	LOW
33	**New technology and subsequent training - Pilot**	Organizational	Technology	LOW	MEDIUM	LOW
34	**Main Office Security**	Operational	Security	LOW	MEDIUM	LOW
35	**Compliance with Regulations and Legislation**	Legal & Regulatory	Compliance	LOW	MEDIUM	LOW
36	**New Technology and Subsequent Training - Authority**	Organizational	Technology	LOW	MEDIUM	LOW

Priority	Risk Title & Background	Category	Sub-Category	Likelihood (residual)	Impact (residual)	Risk Rating
37	**Security of Physical Assets**	Operational	Security	LOW	MEDIUM	LOW
38	**Hazardous/Dangerous or Toxic Cargo**	External	Hazard	LOW	MEDIUM	LOW
39	**Accounts Receivable**	Financial	None	LOW	MEDIUM	LOW
40	**Recruitment and Training of Administration Staff**	Organizational	Training	LOW	LOW	LOW
41	**Incident Management Coordination within Canada**	Incidents	Incident Management	VERY LOW	MEDIUM	LOW
42	**Coordinating Multiple Investigations as a Result of a Cross-Border Incident**	Incidents	Incident Investigation	VERY LOW	MEDIUM	LOW
43	**Special Events Planning**	Operational	Hazard	VERY LOW	MEDIUM	LOW
44	**Ports and/or Terminals Significantly Changing the Way they do Business**	External	None	MEDIUM	LOW	LOW
45	**Management of Variable Costs**	External	Financial	LOW	LOW	LOW
46	**Financial Reserve/Tariff**	Financial	None	LOW	LOW	LOW
47	**Accounts Payable**	Financial	None	VERY LOW	LOW	LOW
48	**Issues with Operating in Shared Waterways**	Emerging	None	Un-rated	Un-rated	Un-rated
49	**Pilots Boarding Vessels Via Helicopter Hoisting**	Emerging	None	Un-rated	Un-rated	Un-rated
50	**Political Interference**	Emerging	None	Un-rated	Un-rated	Un-rated

KEY PERFORMANCE MEASUREMENTS

The performance of the management of the Authority is regularly reviewed and assessed by the Board of Directors. Part of the assessment is based upon certain key performance measurements (KPMs) which are included below.

Final Results for Year End 2011	**Goal**	**Actual**	**2011 Strategic Goal**
On time service delivery	100.0%	99.97%	#1.1 – Culture of quality service
Error Free Dispatches	100.0%	99.99%	#1.1 – Culture of quality service

These KPMs are an indicator of the service level provided to the marine industry. Pilotage services are provided on demand, whenever a customer requests them. On time service delivery is calculated by tracking pilot related delays to vessels and dividing by annual assignments. Error free dispatches are calculated by tracking dispatch errors and dividing by annual assignments.

	Goal	**Actual**	**2011 Strategic Goal**
Incidents on Vessels under Pilotage			
Class A Incidents	0.0%	0.0%	#1.1 – Culture of quality service
Class B and C Incidents	<0.5%	0.04%	and #1.2 – Cultivate enterprise risk awareness
Incidents on Pilot Launches			
Class A Incidents	0.0%	0.0%	#1.1 – Culture of quality service
Class B and C Incidents	<0.5%	0.0%	and #1.2 – Cultivate enterprise risk awareness

Both of these KPMs relate to the safety record of the Authority. All vessel and launch incidents are tracked and investigated, if warranted. The intent is to improve our safety record wherever possible.

	Goal	**Actual**	**2011 Strategic Goal**
Unscheduled launch downtime causing operational delays	0.0%	0.0%	#3.2 – Ensure launch operations are effective and efficient

This KPM measures the Authority's launch operations by tracking unscheduled launch downtime that causes a delay to a vessel. In order to avoid delays the Authority maintains two backup launches that can be transferred between stations if the need arises.

	Goal	**Actual**	**2011 Strategic Goal**
Computer runtime	100.0%	100.0%	#3.1 – Ensure dispatch operations are effective and efficient and #5.1 – Primary source for marine-related information

This KPM measures the computer runtime for our dispatch database which is the primary computer system for the Authority. Our dispatch centres are located in Vancouver and Victoria and are designed to back each other up in the event of downtime. These centres operate around the clock every day of the year so it is essential the computer database is operational.

	Goal	**Actual**	**2011 Strategic Goal**
Maintain an overhead cost of less than 8.5% of annual revenues	8.5%	7.7%	#2.2 – Cost management
Accounts Receivable (Percentage of invoices under 30 calendar days)	90.0%	92.5%	#2.1 – Financial self-sufficiency
Maintain an adequate contingency fund (Investment $/Total revenue $)	5.0%	8.0%	#2.1 – Financial self-sufficiency

These three KPMs are financial in nature and reflect general good business practices. The contingency fund level is set by the Authority's Board and is intended to finance operations for a period of up to six months in the event of a sustained severe issue(s) or force majeure situation.

KEY PERFORMANCE MEASUREMENTS

	Goal	Actual	2011 Strategic Goal
Maintain an average of 8 working days to resolve complaints	8 days	3.1 days	#1.1 – Culture of quality service
Maintain an average of 8 working days to resolve invoice disputes	8 days	2.7 days	#1.1 – Culture of quality service

These KPMs reflect the Authority's commitment to provide a high degree of service to all pilotage stakeholders. In an average year anywhere from 11,000 to 12,000 invoices are issued to industry and it is the Authority's goal to ensure a high level of accuracy and completeness in this process. It is the same with complaints, no matter what they relate to the Authority takes comments very seriously and responds in a professional timeline and manner.

ACCOMPLISHMENTS FOR 2011

A five year service agreement with the British Columbia Coast Pilots Ltd. was negotiated. The contract expires December 31, 2016 and contains changes that will further align contract payments with the Authority's tariff to industry.

A seven year collective agreement covering twenty-six launch masters and engineers was negotiated and ratified by the parties. The expiry date is March 31, 2018.

A six year collective agreement covering seventeen dispatchers and billing staff was negotiated and ratified by the parties. The expiry date is March 31, 2017.

Pilot training during the year included:

- Seven senior pilots received training at Port Revel, France, at the model-ship training facility.
- Seven senior pilots received underwater egress training in Langley, British Columbia.
- Six senior pilots received azipod propulsion systems training at Seattle, USA.

Two coastal and one Fraser River apprentice pilots were licensed during the year.

The Familiarization Program for pilot candidates who wish to increase their knowledge of our compulsory pilotage areas was continued. At year end there are twenty-two candidates enrolled in this program.

The Enterprise Risk Management Program was substantially revamped during the year.

- All departments continue to be involved in the program.
- A major scenario planning exercise was held during September 2011 that involved more than thirty participants representing eight different organizations, including the US Coast Guard.

The Authority's office lease was renewed for a further ten years to the end of 2022.

The Authority's President and CEO was quoted numerous times in the press relating to pilotage operations.

The unaudited financial statements of the Authority were posted to the website on a quarterly basis.

Coastal tide windows for vessels transiting a major bridge in Vancouver harbour were modified to account for new transit rules.

QUALIFIED PILOT CANDIDATES AS AT DECEMBER 31, 2011

During the year 2011, two coastal pilots received their Class II licences and five more apprentices were started in December. These apprentices will be licensed in 2012.

With the intake of the five apprentices during the month of December the coastal eligibility list was reduced to nil candidates as of December 31, 2011. The Authority has scheduled the next examination session for February 2012 with twenty-three candidates scheduled to participate.

At December 31, 2011 there are five candidates on the eligibility list for the Fraser River.

The Authority also conducts a Pilot Familiarization Program for interested candidates. This Program is limited to forty candidates (current enrolment is twenty-two) who participate in order to supplement and upgrade their coast-wide knowledge.

REGULAR CONSULTATIONS WITH STAKEHOLDERS

The Authority's management team continued the annual agency visitation program, meeting with twenty percent of active shipping agencies during the year.

Customer surveys and service levels expected of the Authority are measured on a regular basis.

The Authority's management team continues to meet with the Chamber of Shipping representatives on a regular basis.

The Authority's Director of Marine Operations attends the Chamber of Shipping's Navigation Services Committee meetings on a regular basis as an invited guest. This enables the Authority and industry to collectively resolve issues as they arise.

The Authority continues to be an active member of the Western Transportation Advisory Council (WESTAC), the Northwest Corridor Development Corporation (NCDC) and the Pacific Gateway.

The Authority along with the BCCP Ltd. participated in a marine terminal review of the Enbridge Northern Gateway Pipeline project.

The Authority was also a participant in the Scott Islands Advisory Group who propose to establish a protected marine park.

LOOKING AHEAD – 2012 AND BEYOND

Preparations are underway for 2012 and future years to ensure we maintain our traditional high level of service to all stakeholders.

We continue to actively monitor and remain aware of all projects proposed in our jurisdiction by analyzing the impact they might have on assignments and pilot numbers. Some of the major projects we are currently monitoring are:

- Stage II of the Prince Rupert container facility projected to triple capacity to 2.0 million TEUs;
- liquid natural gas terminals in the Kitimat and Prince Rupert areas;
- a crude oil pipeline terminal in Kitimat;
- a new terminal at Deltaport which would double Port Metro Vancouver's container volumes;
- expansion of an existing pipeline to increase crude oil shipment capacity in Burrard Inlet;
- a new jet fuel terminal in the Fraser River that will serve Vancouver airport.

The enormous scope of these projects will undoubtedly have profound impacts on our business model. To this end we remain committed to ensure that our strategies recognize the challenges and find the Authority ready for change.

The Authority is an active participant along with the pilots when new terminals or docks are proposed in our jurisdiction. Our views on design, location, access, etc. are regularly sought out prior to construction.

Our monitoring includes the federal emission control area legislation which will cover every vessel entering our jurisdiction. This legislation takes effect on August 1, 2012. Also of major scope is the widening of the Panama Canal, scheduled to be completed in 2014, and its effect on shipping and trade patterns both locally and globally.

The Authority's website will be enhanced with tide windows for the Fraser River and an Internet ordering module for pilotage services will be offered to users in 2012.

The four Canadian pilotage authorities will celebrate a 40th anniversary in 2012 as the *Pilotage Act* came into force in 1972.

Our efforts in the coming years continue to be directed towards our vision of being 'a world leader in marine pilotage'.

ECONOMIC - 2012

The Authority's annual financial results are traffic driven. Annual traffic levels and thus finances are driven by the economics of the industries we serve. It remains very difficult to forecast exact traffic levels for a coming year as there are many factors involved, well outside the control of the Authority. For 2012 the Authority has maintained its conservative approach to budgeting by basing its expenditures on 11,200 coastal and 970 Fraser River assignments. These traffic levels take into account a number of factors:

- The ongoing global economic uncertainty.
- The fluctuation of ship charter rates that makes it increasingly difficult for ocean carriers to prosper financially.
- The restructuring of the Canadian Wheat Board and preliminary grain crop forecasts for the coming year. Grain assignments are especially significant to the Authority's traffic volumes since they tend to load at multiple berths and shift between anchorages in order to get full cargoes. The Authority has budgeted for 800 fewer assignments in this sector for 2012 when compared to 2011. The decrease in grain assignments has a corresponding effect on the annual coastal pilotage revenues as they are budgeted to decrease by $4.4 million in 2012.

FINANCIAL – TARIFF ADJUSTMENT FOR 2012

At time of writing, the Authority and industry have not finalized an adjustment for 2012. Due to the strong financial results achieved over the last two years it was decided to assess the first two months of actual traffic in 2012. It is the Authority's intention to adjust the tariff in 2012 in order to match cost pressures from the service and labour contracts in place. The timing of this adjustment can be deferred to later in the year as the Authority has built up sufficient working capital.

COST CONTAINMENT MEASURES

The Authority is committed to following the spirit and intent of the government's ongoing cost containment and deficit reduction measures.

During 2011, the Authority's management conducted a detailed review of all expenditures made during 2010. This review included a line by line analysis of $51.3 million of operating and $4.7 million in administrative expenses. Additionally, every major expenditure category of the 2012 budget was based upon this review with the goal of achieving greater efficiency and profitability. Capital expenditures for 2012 are being funded by the existing revenue stream.

STRATEGY

On an annual basis, the Authority engages in strategic planning sessions involving the Board of Directors and management. The most recent session held during September 2011, endorsed the key objectives and strategies which are summarized below.

STRATEGIC GOALS FOR 2012

Strategic Goal	Description	Strategy	Strategy
#1.1	Create a culture of quality service	Implementation of Pilot Assessment Program	Standardized procedures
#1.2	Continue to cultivate enterprise risk awareness	Ensure mitigation plans in place and tested for high risks	Continue to integrate company-wide
#2.1	Maintain financial self-sufficiency	Financial reserve of five percent of annual revenues	Manage the balance between financial sustainability and a competitive tariff structure
#2.2	Maintain a culture of cost management	Maintain overhead costs at 8.5 percent or less of revenues	Annual increase in operational costs maintained at CPI or less
#2.3	Improve the Authority's competitive edge	Review and monitor pilotage fees to retain competitive edge	Review pilotage in remote ports to ensure a cost effective service
#3.1	Effective and efficient dispatch procedures	Implement and integrate an ISO system	Tracking of delays
#3.2	Effective and efficient launch operations	Implement and integrate an ISO system	Computerized maintenance system
#3.3	Enhance the overall productivity of the Authority through innovation, training and investment in technology	Upgrade and reorganize the current dispatch and traffic coordination areas	
#4.1	Create a culture of sustainability	Communicate sustainability policy	Implement practices and procedures
#5.1	Primary source for marine-related information	Implement improvements to the computer database to improve efficiency of information flow to stakeholders	Utilize database and website to provide marine related information to users required to make informed decisions on pilotage
#5.2	Raise the profile of the Authority in the marine industry and coastal communities	Management to take on leadership roles within the marine community	Continue Community Outreach program

MEASUREMENT OF 2011 STRATEGIC GOALS

The Authority measures its strategic goals on an annual basis.

STRATEGIC GOAL #1.1 - CREATE A CULTURE OF QUALITY SERVICE

Strategy	Description	Measurement 2011
1.1(a)	Implementation of Pilot Assessment Program	• Assessments are now being carried out for all pilots with up to three years of service • A course to train ten volunteer pilots in peer assessment was completed during the year
1.1(b)	Standardized procedures to improve the predictability of pilotage services	• Port working committees in place at PMV, Nanaimo and Prince Rupert • Terms of reference and scope have been agreed to • Tug bollard pull requirements and costing commenced for Delta Port (PMV)

STRATEGIC GOAL #1.2 – CONTINUE TO CULTIVATE ENTERPRISE RISK AWARENESS

Strategy	Description	Measurement 2011
1.2(a)	Ensure that mitigation plans for all risks designated as 'HIGH' are completed	• Scenario exercise for occupational health and safety completed with report and recommendations • Scenario exercise for pilot liability completed along with report and recommendations • Outcomes incorporated into risk register where appropriate
1.2(b)	Continue to integrate the results of risk assessments departmentally and company -wide	• ERM intranet site and email address accessible to all employees • ERM included as a permanent agenda item for all staff meetings

STRATEGIC GOAL #2.1 – MAINTAIN THE AUTHORITY'S FINANCIAL SELF-SUFFICIENCY

Strategy	Description	Measurement 2011
2.1(a)	Ensure that the Authority maintains a financial reserve of not less than five percent of annual revenues	• Financial reserve of eight percent in place at December 31, 2011

STRATEGIC GOAL #2.2 – MAINTAIN THE CULTURE OF COST MANAGEMENT THROUGHOUT THE AUTHORITY

Strategy	Description	Measurement 2011
2.2(a)	Maintain the Authority's overhead cost at 8.5 percent or less of annual revenues	• Actual overhead cost of 7.7 percent in place at December 31, 2011
2.2(b)	Maintain the Authority's annual increase in operational costs at or below the consumer price index (CPI) for Canada	• Actual increase for launch operations was 7.4 percent compared to a CPI target of 2.9 percent was negatively impacted by lease renewals

MEASUREMENT OF 2011 STRATEGIC GOALS

STRATEGIC GOAL #2.3 – IMPROVE THE AUTHORITY'S COMPETITIVE EDGE

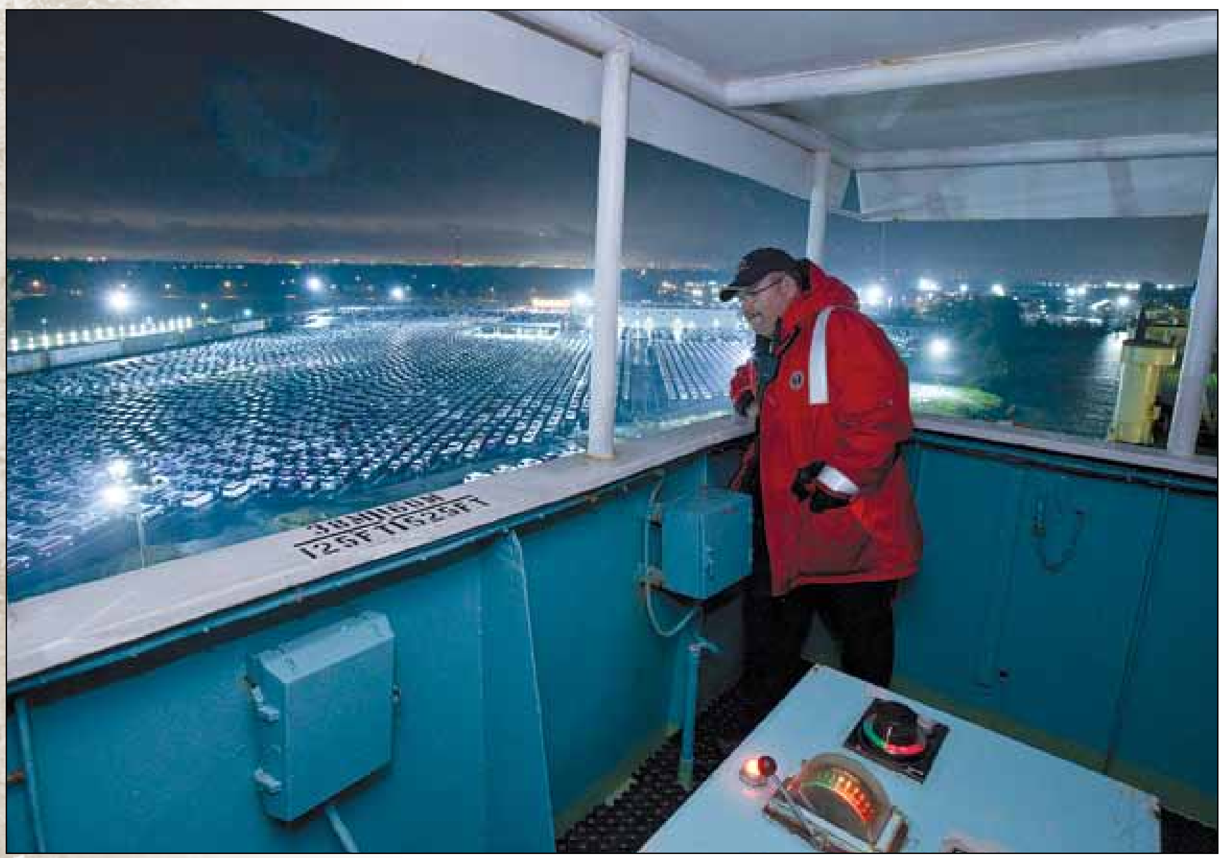
Strategy	Description	Measurement 2011
2.3(a)	Review pilotage fees for comparable West Coast ports and make recommendations to retain competitive edge	• Cost comparison resulted in a Board motion to freeze fuel charges and discontinue PPU charge as of May 1, 2011

STRATEGIC GOAL #3.1 – ENSURE THAT THE AUTHORITY'S DISPATCH PROCEDURES ARE EFFECTIVE AND EFFICIENT

Strategy	Description	Measurement 2011
3.1(a)	Implement and integrate an ISO system for dispatch by December 31, 2014	• ISO consultant selected
3.1(b)	Tracking of job delays	• Computer system modified and delay module tested for 2012 implementation

STRATEGIC GOAL #3.2 – ENSURE THAT THE AUTHORITY'S LAUNCH OPERATIONS ARE EFFECTIVE AND EFFICIENT

Strategy	Description	Measurement 2011
3.2(a)	Implement and integrate an ISO system for launch operations by December 31, 2014	• ISO consultant selected
3.2(b)	Implement computerized maintenance system for pilot launches	• Computer system identified and initial data input into system



MEASUREMENT OF 2011 STRATEGIC GOALS

STRATEGIC GOAL #3.3 – ENHANCE THE OVERALL PRODUCTIVITY OF THE AUTHORITY THROUGH INNOVATION, TRAINING AND INVESTMENT IN TECHNOLOGY

Strategy	Description	Measurement 2011
3.3(a)	Formalize the training program for apprentice and senior pilots	• Apprentice training courses have been moved to a new facility in France • Syllabus from training facility in France received and under review by Pilot Training and Exam Committee (PTEC)
3.3(b)	Implement a standardized training program for all staff	• Not completed, in progress

STRATEGIC GOAL #4.1 – CREATE A CULTURE OF SUSTAINABILITY THROUGHOUT THE AUTHORITY

Strategy	Description	Measurement 2011
4.1(a)	Communicate the sustainability policy throughout the Authority	• Deferred to 2012
4.1(b)	Communicate and implement the sustainability practices and procedures specifically related to our stakeholders and the environment in which we operate	• Deferred to 2012

MEASUREMENT OF 2011 STRATEGIC GOALS

STRATEGIC GOAL #5.1 – TO BECOME A PRIMARY SOURCE FOR MARINE-RELATED INFORMATION WITHIN OUR AREA OF JURISDICTION

Strategy	Description	Measurement 2011
5.1(a)	Begin the process to implement stage II of the computer database in order to improve the efficiency of the information flow to our clients and stakeholders	• Internet ordering of pilotage services developed and tested for 2012 implementation • Electronic source cards deferred to 2012
5.1(b)	Utilize the Authority's database and website to provide industry with the marine-related information they require to make informed decisions on pilotage	• Coastal tide windows program put onto website • Traffic page visits being tracked monthly

STRATEGIC GOAL #5.2 – TO RAISE THE PROFILE OF THE AUTHORITY IN THE MARINE INDUSTRY AND COASTAL COMMUNITIES

Strategy	Description	Measurement 2011
5.2(a)	Management to take on leadership roles within the marine community at every opportunity	• Management regularly participated on seven marine community committees and organizations • Management met with twenty percent of its customer base
5.2(b)	Continue the Community Outreach Program	• Job fairs attended by management in conjunction with BCCP • The Authority met with the ports in our jurisdiction

Statement of Management Responsibility

These financial statements have been prepared by the Authority's management in accordance with International Financial Reporting Standards, using management's best estimates and judgements, where appropriate. The Authority's management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded and controlled, transactions comply with relevant authorities and accounting systems provide relevant and reliable financial information.

The Board of Directors of the Authority is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through an Audit Committee, which meets regularly with management and the auditor. The financial statements and annual report are reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Authority and for issuing his report thereon.

K. G. Obermeyer
President and Chief Executive Officer

B. D. Chadwick
Director of Finance

1 March 2012

INDEPENDENT AUDITOR'S REPORT

Auditor General of Canada
Vérificateur général du Canada

To the Minister of Transport, Infrastructure and Communities

Report on the Financial Statements

I have audited the accompanying financial statements of the Pacific Pilotage Authority, which comprise the statements of financial position as at 31 December 2011, 31 December 2010 and 1 January 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended 31 December 2011 and 31 December 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Pacific Pilotage Authority as at 31 December 2011, 31 December 2010 and 1 January 2010, and its financial performance and its cash flows for the years ended 31 December 2011 and 31 December 2010 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act,* I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of the new standards as explained in Note 17 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Pacific Pilotage Authority that have come to my notice during my audits of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Pacific Pilotage Authority.

Guy LeGras, CA
Principal
for the Auditor General of Canada

1 March 2012
Vancouver, Canada

Statement of financial position
(expressed in thousands of Canadian dollars)

	31 December 2011	31 December 2010	1 January 2010
Assets			
Current			
Cash and cash equivalents	$ 6,113	$ 6,805	$ 5,387
Derivative financial asset	-	13	61
Accounts receivable, trade (Note 5)	4,800	4,624	4,000
Prepaid expenses and other receivables (Note 5)	1,515	976	768
	12,428	12,418	10,216
Non-current			
Long-term investments (Note 6)	5,248	3,059	2,418
Property and equipment (Note 7)	10,477	11,282	10,629
Intangible asset (Note 8)	300	280	300
	16,025	14,621	13,347
	$ 28,453	$ 27,039	$ 23,563
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 6,592	$ 5,713	$ 4,745
Other employee benefits (Note 11)	148	207	160
Bank indebtedness (Notes 5 and 9)	-	3,632	4,276
	6,740	9,552	9,181
Non-current			
Other employee benefits (Note 11)	888	711	653
	888	711	653
	7,628	10,263	9,834
Equity			
Retained earnings	20,825	16,776	13,729
	20,825	16,776	13,729
	$ 28,453	$ 27,039	$ 23,563

Commitments (Note 15)

The accompanying notes are an integral part of these financial statements.

Member: ______________________

Member: ______________________

Statement of comprehensive income
(expressed in thousands of Canadian dollars)

	Year ended 31 December	
	2011	2010
Revenues		
Pilotage charges (Note 12)	$ 65,549	$ 59,117
Interest and other revenues	248	143
	65,797	59,260
Expenses		
Contract pilots' fees	39,759	35,560
Operating costs of pilot boats	7,839	6,742
Salaries and benefits	5,417	5,096
Transportation and travel	5,399	4,885
Depreciation – property and equipment (Note 7)	890	800
Professional and special services	706	380
Pilots' training	547	1,513
Rentals	251	255
Computer services	228	296
Interest expense	151	159
Utilities, materials and supplies	140	149
Amortization – intangible asset	104	92
Communications	86	85
Repairs and maintenance	55	63
	61,572	56,075
Profit for the year	4,225	3,185
Other comprehensive income		
Actuarial loss on other employee benefits (Note 11)	(176)	(138)
	(176)	(138)
Total comprehensive income	$ 4,049	$ 3,047

The accompanying notes are an integral part of these financial statements.

Statement of changes in equity
(expressed in thousands of Canadian dollars)

	Year ended 31 December	
	2011	2010
Retained earnings, beginning of year	$ 16,776	$ 13,729
Profit for the year	4,225	3,185
Other comprehensive income	(176)	(138)
Total comprehensive income	4,049	3,047
Retained earnings, end of year	$ 20,825	$ 16,776

The accompanying notes are an integral part of these financial statements.

Statement of cash flows
(expressed in thousands of Canadian dollars)

	Year ended 31 December	
	2011	2010
Cash flows from operating activities		
Cash receipts from customers	$ 65,408	$ 58,493
Cash paid to employees and suppliers	(59,973)	(54,170)
Other income received	198	142
Interest paid	(138)	(111)
Employee severance benefit payments	(157)	(126)
Net cash provided by operations	5,338	4,228
Cash flows from investing activities		
Purchase of long-term investments	(7,924)	(3,313)
Proceeds on disposal of long-term investments	5,735	2,672
Acquisition of property and equipment	(85)	(1,453)
Acquisition of intangible asset	(124)	(72)
Net cash used in investing activities	(2,398)	(2,166)
Cash flows from financing activities		
Re-payment of bank indebtedness	(3,632)	(644)
Cash used in financing activities	(3,632)	(644)
Net (decrease) increase in cash and cash equivalents	(692)	1,418
Cash and cash equivalents, beginning of year	6,805	5,387
Cash and cash equivalents, end of year	$ 6,113	$ 6,805
Represented by:		
Cash	$ 558	$ 535
Cash equivalents	5,555	6,270

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED 31 DECEMBER 2011 AND 2010
(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

1. Authority and objectives

The Pacific Pilotage Authority (the "Authority") was established in 1972 pursuant to the *Pilotage Act*. The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act further provides that the tariffs of pilotage charges shall be fixed at a level that permits the Authority to operate on a self-sustaining financial basis and shall be fair and reasonable.

Coastal pilotage services are provided by the British Columbia Coast Pilots Ltd. under an agreement for services. Pilotage services on the Fraser River are provided by employee pilots.

The Authority is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act* and is not subject to any income taxes.

The principal registered address and records office of the Authority are located at 1000 - 1130 West Pender Street, Vancouver, BC, V6E 4A4.

Regulation of tariffs of pilotage charges

The tariffs of pilotage charges that the Authority charges to vessels subject to compulsory pilotage are governed by the *Pilotage Act*. With the approval of the Governor in Council, the Authority makes regulations to prescribe tariffs of pilotage charges to be paid to the Authority.

As set out in the *Pilotage Act*, the Authority must first publish the proposed tariffs of pilotage charges in the Canada Gazette. Any person who has reason to believe that the proposed pilotage charges are not in the public interest may file a notice of objection, setting out the grounds therefore, with the Canadian Transportation Agency (the "Agency"), an entity related to the Authority as a federal organization. In such a case, the Agency must investigate whether the proposed charges are in the public interest, including the holding of public hearings. After conducting the investigation, the Agency must make a recommendation within 120 days from the receipt of the notice of objection, and the Authority is required to govern itself accordingly.

The tariffs may come into force 30 days after their publication in the Canada Gazette. However, where the Agency recommends pilotage charges that are lower than that prescribed by the Authority, the Authority is required to reimburse the difference between the prescribed charges and the charges recommended by the Agency, plus interest, to any person who has paid the prescribed charges. The *Pilotage Act* stipulates that the Governor in Council may vary or rescind a recommendation of the Canadian Transportation Agency.

The tariffs of pilotage charges must be fair and reasonable, and must enable the Authority to operate on a self-sustaining financial basis. Thus, the tariffs are intended to allow the Authority to recover its costs and fund the acquisition of capital assets.

2 Basis of presentation

The financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"). The disclosures concerning the transition from the Authority's previous Canadian generally accepted accounting principles ("GAAP") to IFRS are included in Note 17.

The financial statements were authorized for issue by the Board of Directors on 1 March 2012.

3. Significant accounting policies

The significant accounting policies are as follows:

(a) Cash equivalents

Cash equivalents represent short-term, highly liquid investments and consist of Canadian dollar deposits held at Canadian chartered banks, earning a weighted average interest rate of 1.25% (2010 – 1.0%).

(b) Financial assets

The Authority's financial assets include accounts receivable, trade and long-term investments.

(i) Classification

The Authority classifies its financial assets into the following categories: at fair value through profit or loss and loans and receivable. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are classified as held for trading or that have been designated as financial assets at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the short term. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are measured at fair value with gains or losses recognized in profit or loss.

The Authority has elected to designate all its long-term investments at fair value through profit or loss. The long-term investments are initially recognized at fair value and subsequently measured at fair value at each reporting date. Fair value is based on the quoted price of the securities at the reporting date. Purchases and sales of investments are recognized on a settlement date basis.

Gains and losses arising from changes in fair values or sales of long-term investments are included in interest and other revenues on the statement of comprehensive income. Interest and other revenues are also presented net of investment expenses.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Authority's accounts receivable, trade and other receivables are classified as loans and receivables.

Accounts receivable, trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

(c) Property and equipment

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

Property and equipment are initially recorded at cost, and subsequently measured at amortized cost. The cost of assets constructed by the Authority includes design, project management, legal, materials, interest on directly attributable construction loans, and construction costs. Spare engines are carried at cost and will be depreciated when put in service. Depreciation is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings and floats	10 - 20 years
Pilot boats	25 years
Pilot boat engines	7,500 - 10,000 running hours
Pilot boat generators	10 years
Equipment - communication and other	10 years
- computers	3 years
Leasehold improvements	shorter of 10 years or remaining term of lease

The assets' residual values and estimated useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. In addition, an asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(d) Intangible asset

Acquired computer software is recorded at cost and amortized on a straight-line basis over its estimated useful life of 5 years.

(e) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

(f) Employee benefits

(i) Pension benefits

All eligible employees of the Authority are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority to cover current service cost. Pursuant to legislation currently in place, the Authority has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Authority.

(ii) Other employee benefits

Employees are entitled to severance and sick leave benefits as provided for under collective agreements or employment contracts. The liability for these benefits is estimated and recorded in the financial statements as the benefits accrue to the employees.

The costs and the defined benefit obligation are actuarially determined using the projected unit credit method prorated on service that incorporates management's best estimate assumptions.

Actuarial gains and losses are recognized immediately in other comprehensive income (OCI).

(g) Revenue recognition

Revenues from pilotage charges are recognized on an accrual basis, at their fair value, when pilotage services are provided. Interest income is also recognized on an accrual basis using the effective interest method.

(j) Accounting standards issued but not yet effective

Accounting standards issued but not yet effective which are expected to be relevant to the Authority include:

IFRS 9, "Financial instruments" (new)
IFRS 13, "Fair value measurement" (new)
IAS 1, "Presentation of financial statements" (amended)
IAS 19, "Employee benefits" (amended)

The Authority has not early adopted any of these new or amended standards and is currently assessing the impact that these standards will have on the financial statements.

4. Significant accounting judgments and estimates

The preparation of financial statements requires management to make judgments that affect the application of accounting policies, and estimates and assumptions that affect the reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from the estimates and assumptions made by management.

The significant judgments made by management in applying the Authority's accounting policies include determining the components and the method to be used to depreciate property and equipment.

The estimates and underlying assumptions made by management that may have a significant effect on the financial statements include determining the present value of the defined benefit obligation of the other employee benefits on an actuarial basis using management's best estimates and assumptions. Any changes in these estimates and assumptions, which include the discount rate, will impact the carrying amount of the defined benefit obligation. The discount rate used to determine the present value of the defined benefit obligation is based on the interest rates of high-quality corporate bonds of the same currency and with similar terms to maturity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

5. Financial instruments

(a) Risk management

The Authority, through its financial assets and financial liabilities, is exposed to the following risks from its use of financial instruments: credit risk, liquidity risk, and market risks (i.e. interest rate risk and currency risk and other price risk). The Authority manages these risk exposures on an ongoing basis.

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

(b) Credit risk

Credit risk on financial instruments arises from the possibility that the issuer of a financial instrument fails to meet its obligation. To manage this risk, the Minister of Finance authorizes the Authority to only invest in bonds or other obligations of or guaranteed by Her Majesty in right of Canada or any province, or any municipality in Canada.

The carrying amount of cash and cash equivalents, accounts receivable and long-term investments represents the maximum credit exposure.

The Authority's accounts receivable, trade and other receivables had a carrying value of $4,933 as at 31 December 2011 (31 December 2010 - $4,627; 1 January 2010 - $4,002). There is no significant concentration of accounts receivable with any one customer. As at 31 December 2011, approximately .3% (31 December 2010 - .1%; 1 January 2010 - .1%) of accounts receivable were over 90 days past due, whereas 99.7% (31 December 2010 – 99.9%; 1 January 2010 - 99.9%) were current, or less than 90 days past due. Historically, the Authority has not incurred any significant losses with respect to bad debts. The Authority's allowance for doubtful accounts was nil at all dates presented.

The credit risk related to cash and cash equivalents is minimized as these assets are held with a Canadian chartered bank.

The credit risk related to long-term investments is minimized as the Authority only invests in Government of Canada guaranteed bonds.

(c) Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. The Authority's objective is to have sufficient liquidity to meet these liabilities when due. The Authority monitors its cash balances and cash flows generated from operations on a frequent basis to meet its requirements.

The carrying amount of accounts payable and accrued liabilities and bank indebtedness represents the maximum exposure to liquidity risk.

The Authority's accounts payable had a carrying value of $4,403 as at 31 December 2011 (31 December 2010 - $3,809; 1 January 2010 - $3,026) and are all due within 60 days. The Authority's accrued liabilities had a carrying value of $2,189 as at 31 December 2011 (31 December 2010 - $1,904; 1 January 2010 - $1,719).

The Authority has credit facilities with a Canadian chartered bank. At 31 December 2011, these financial liabilities were nil (31 December 2010 - $3,632; 1 January 2010 - $4,276).

(d) Market risk

(i) Interest rate risk:

Interest rate risk arises because of the fluctuation in interest rates. The Authority is subject to interest rate risk on its cash and cash equivalents and the investments portfolio. Interest rate risk is minimized by managing the duration of the fixed-term investments portfolio and rebalancing on a monthly basis to the Standard & Poor's Canadian Short-Term Composite Index. The interest rates on the long-term investments are fixed. The long-term investments will mature over the next five years.

As at 31 December 2011, a shift in interest rates of 100 basis points, assuming that all other variables had remained the same, would have resulted in a $1 increase or decrease in the Authority's profit for the year ended 31 December 2011 (31 December 2010 - a nil increase or decrease in the Authority's profit for the year).

(ii) Currency risk and other price risk:

The Authority is not presently exposed to any significant currency risk or other price risk.

(e) Fair values

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The Authority's cash and cash equivalents and long-term investments are measured subsequent to initial recognition at fair value and are Level 1 at all dates presented.

The carrying values of the Authority's accounts receivable, trade and other receivables are deemed to equal their fair values due to their short-term to maturity.

6. Long-term investments and investment revenue

The Board of Directors of the Authority has established a policy for the management of the investments.

(a) Portfolio investments

	As at 31 December 2011		As at 31 December 2010		As at 1 January 2010	
	Fair Value	Face Value	Fair Value	Face Value	Fair Value	Face Value
Government of Canada Bonds	$ 1,810	$ 1,796	$ 1,238	$ 1,252	$ 872	$ 870
Canada Housing Trust Bonds	3,438	3,403	1,821	1,824	1,546	1,543
	$ 5,248	$ 5,199	$ 3,059	$ 3,076	$ 2,418	$ 2,413

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

(b) Investment Revenue

	Year ended 31 December 2011	Year ended 31 December 2010
Interest	$ 247	$ 151
Gains and losses		
Realized gains (losses) in the year	-	(12)
Unrealized gains (losses) in the year	9	(47)
	9	(59)
Investment management fees	(23)	(12)
	$ 233	$ 80

(c) Investment performance

The annualized rate of return during the year on these investments was 3.85% (2010 - 2.42%).

7. Property and equipment

	Buildings and floats	Pilot boats	Engines	Spare engines	Generators	Equipment - Communications and other	Equipment - Computers	Leasehold improvements	Total
Cost									
At 1 January 2010	$ 275	$ 11,490	$ 1,413	$ -	$ 232	$ 329	$ 398	$ 97	$ 14,234
Assets acquired	45	383	-	-	-	15	1,010	-	1,453
Disposals	-	(836)	-	-	-	(12)	-	-	(848)
At 31 December 2010	320	11,037	1,413	-	232	332	1,408	97	14,839
Assets acquired	14	77	-	-	-	-	(8)	2	85
Disposals	-	-	-	-	-	-	-	-	-
At 31 December 2011	$ 334	$ 11,114	$ 1,413	$ -	$ 232	$ 332	$ 1,400	$ 99	$ 14,924
Accumulated depreciation									
At 1 January 2010	$ 241	$ 2,104	$ 597	$ -	$ 45	$ 273	$ 248	$ 97	$ 3,605
Depreciation for the year	15	468	129	-	21	21	146	-	800
Disposals	-	(836)	-	-	-	(12)	-	-	(848)
At 31 December 2010	256	1,736	726	-	66	282	394	97	3,557
Depreciation for the year	12	478	114	-	23	23	240	-	890
At 31 December 2011	$ 268	$ 2,214	$ 840	$ -	$ 89	$ 305	$ 634	$ 97	$ 4,447
Carrying amounts									
At 1 January 2010	$ 34	$ 9,386	$ 816	$ -	$ 187	$ 56	$ 150	$ -	$ 10,629
At 31 December 2010	$ 64	$ 9,301	$ 687	$ -	$ 166	$ 50	$ 1,014	$ -	$ 11,282
At 31 December 2011	$ 66	$ 8,900	$ 573	$ -	$ 143	$ 27	$ 766	$ 2	$ 10,477

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

8. Intangible asset

		Software		Total
Cost				
At 1 January 2010	$	435	$	435
Assets acquired		72		72
Disposals		-		-
At 31 December 2010		507		507
Assets acquired		124		124
Disposals		-		-
At 31 December 2011	$	631	$	631
Accumulated amortization				
At 1 January 2010	$	135	$	135
Amortization for the year		92		92
Disposals		-		-
At 31 December 2010		227		227
Amortization for the year		104		104
Disposals		-		-
At 31 December 2011	$	331	$	331
Carrying amounts				
At 1 January 2010	$	300	$	300
At 31 December 2010	$	280	$	280
At 31 December 2011	$	300	$	300

9. Bank indebtedness

The following table represents the total bank indebtedness of the Authority.

		As at 31 December 2011		As at 31 December 2010		As at 1 January 2010
Non-revolving term credit facility.	$	-	$	3,632	$	4,276
Total bank indebtedness	$	-	$	3,632	$	4,276

The Authority has another operating credit facility of up to $2.0 million available at an interest rate equivalent to the bank's prime lending rate. The Authority has not drawn on this facility at all dates presented. The credit facility is available to the Authority as required and has no renewal date or fixed term.

10. Pension benefits

Substantially all of the employees of the Authority are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at year end was 5.8% (2010 – 5.5%). Total contributions of $759 (2010 - $761) were recognized as expense in the current year.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2 percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

11. Other employee benefits

The severance and sick leave benefits are provided to all active employees under various collective agreements and employment contracts. The benefits are fully paid for by the Authority and require no contributions from employees. The plans are funded on a pay-as-you-go basis and no assets have been segregated and restricted to provide for the benefits. The Authority measures the defined benefit obligation of its plans for accounting purposes as at 31 December of each year.

Information about the plans is as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Reconciliation of defined benefit obligation		
Defined benefit obligation, beginning of year	$ 918	$ 813
Current service cost	54	47
Interest cost	48	51
Benefits paid	(160)	(131)
Actuarial loss	176	138
Defined benefit obligation, end of year	$ 1,036	$ 918
Reconciliation of plan assets		
Fair value of plan assets, beginning of year	-	-
Expected return on plan assets	-	-
Employer contributions	160	131
Employee contributions	-	-
Benefits paid	(160)	(131)
Fair value of plan assets, end of year	-	-
Components of expense recognized in profit or loss		
Current service cost	54	47
Interest cost	48	51
Total expense recognized in profit and loss	102	98
Analysis of actuarial gain or loss		
Change in discount rate	77	73
Experience loss on plan liabilities	99	65
Actuarial loss	176	138
Reconciliation of actuarial gains and (losses) recognized in OCI		
Actuarial gain (loss) immediately recognized in OCI	176	138
Cumulative actuarial gain (loss) recognized in OCI, beginning of year	138	-
Cumulative actuarial gain (loss) recognized in OCI, end of year	314	138

	As at 31 December 2011	As at 31 December 2010	As at 1 January 2010
Reconciliation of funded status			
Defined benefit obligation, end of year	1,036	918	813
Fair value of plan assets, end of year	-	-	-
Deficit	1,036	918	813
Liability recognized on statement of financial position	1,036	918	813
Classification of defined benefit obligation			
Current portion	148	207	160
Non-current portion	888	711	653
Defined benefit obligation, end of year	$ 1,036	$ 918	$ 813

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

The significant assumptions used in the actuarial valuation of the defined benefit obligation were:

Weighted-average assumptions for expense

	Year Ended 31 December 2011	Year ended 31 December 2010
Discount rate	5.1%	6.1%
Salary escalation rate – 2009 to 2013	2.0%	2.0%
– thereafter	3.5%	3.5%

Weighted-average assumptions for obligation

	As at 31 December 2011	As at 31 December 2010	As at 1 January 2010
Discount rate	4.2%	5.1%	6.1%
Salary escalation rate – 2009 to 2013	2.0%	2.0%	2.0%
– thereafter	3.5%	3.5%	3.5%

The Authority expects to make a contribution of $109 (2010 - $61) to its defined benefit plan during the 2012 financial year.

12. Pilotage charges

In addition to standard pilotage charges, the Authority charges users a fee of $.205 (2010 - $.205) every time an Authority-owned pilot launch is used to transport a pilot. This fee is intended to fund the launch replacement and portable pilotage unit capital costs.

	Year ended 31 December 2011	Year ended 31 December 2010
Pilotage charges	$ 64,014	$ 57,516
Launch replacement and portable pilotage unit fees	1,535	1,601
Total pilotage charges	$ 65,549	$ 59,117

13. Capital management

The Authority's capital is its equity, which is comprised of retained earnings. Equity is represented by net assets.

The Authority is subject to the financial management and accountability provisions of the *Financial Administration Act* which imposes restrictions in relation to borrowings and acquisition of investments. On an annual basis the Authority must receive approval of all borrowings from the Minister of Finance. The Act limits investments to bonds or other obligations of, or guaranteed by, Her Majesty in right of Canada or any province, or any municipality in Canada. During the years ended 31 December 2011 and 2010, the Authority has complied with these restrictions.

The Authority manages its equity as a by-product of managing its revenues, expenses, assets, liabilities, and general financial dealings to ensure that its objectives are achieved efficiently. The tariffs of pilotage charges must be fair and reasonable and must enable the Authority to operate on a self-sustaining financial basis, as required by the *Pilotage Act.*

There were no changes in the Authority's approach to capital management during the year.

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

14. Related party transactions

Details of the transactions between the Authority and other related parties are disclosed below.

(a) Trading transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties. The transactions are recorded at the exchange amount, which approximates fair value. These transactions are not of significance and do not have a material effect on these financial statements.

(b) Compensation of key management personnel

Key management personnel of the Authority include the members of the Board of Directors and senior executives of the Authority. The remuneration of key management personnel included:

	Year ended 31 December 2011	Year ended 31 December 2010
Short-term employee benefits, such as wages and salaries	$ 637	$ 629
Post-employment benefits, such as severance	42	-
	679	629

15. Commitments

The Authority has a contract with a computer software vendor to provide software maintenance at a cost of $45 per annum for the year of 2012.

The Authority has a long-term operating lease obligation for office accommodation to 31 December 2022. The per annum payments are:

Year of 2012	- $144
Years of 2013 – 2015	- $150
Years of 2016 – 2019	- $158
Years of 2020 – 2022	- $165

The obligation also calls for payment of a pro-rata share of annual operating costs and property taxes, estimated at $101 for 2012. In the current year, $96 was recognized as an expense (2010 - $89).

16. Events after the reporting period

No material adjusting or non-adjusting events have occurred between the reporting date and the date of authorization of these financial statements.

17. First time adoption of IFRS

(a) Transition to IFRS

The Authority adopted IFRS with a transition date of 1 January 2010. IFRS 1, "First-time adoption of International Financial Reporting Standards", provides guidance for the initial adoption of IFRS. IFRS 1 requires retrospective application of the standards in the preparation of the opening statement of financial position and financial information for the comparative period, with certain mandatory exceptions to, and optional exemptions from, retrospective application.

(b) Initial mandatory exceptions and optional exemptions upon adoption of IFRS

The Authority has applied the following mandatory exceptions and optional exemptions in preparing its opening statement of financial position and the financial information for its comparative period:

(i) Exception for estimates

IFRS 1 requires that, where there is no difference in accounting policies, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under the entity's previous GAAP, unless there is objective evidence that those estimates were in error. The Authority's IFRS estimates as of 1 January 2010 are consistent with its Canadian GAAP estimates for the same date.

(ii) Exemption for employee benefits

IFRS 1 provides retrospective relief from applying IAS 19, "Employee benefits" , for the recognition of actuarial gains and losses. The Authority has elected to recognize all cumulative actuarial gains and losses that existed at the date of transition in its opening retaining earning for all of its post-employment employee severance benefit plans.

The Authority has also elected to apply the IFRS 1 exemption related to certain disclosures of employee benefits. This exemption allows the Authority to disclose the history of its defined benefit obligations and experience adjustments prospectively from the date of transition to IFRS rather than for a five year history as otherwise required by IAS 19.

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

(iii) Exemption for borrowing costs

IAS 23, "Borrowing costs", requires that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset from part of the cost of the asset. All other borrowing costs are expensed as incurred. In accordance with IFRS 1, the Authority has elected to prospectively apply IAS 23, "Borrowing cost", effective 1 January 2010.

The other optional exemptions available under IFRS 1 have not been applied as they are not relevant to the Authority.

(c) Reconciliations from previous Canadian GAAP to IFRS

IFRS employs a conceptual framework that is similar to the Authority's previous Canadian GAAP; however, significant differences exist in certain areas of recognition, measurement, presentation and disclosure. While the adoption of IFRS has not changed the actual cash flows of the Authority, the adoption has resulted in changes to the Authority's reported financial position and results of operations. In order to allow financial statement users to better understand these changes, the Authority's Canadian GAAP statement of financial position at 1 January 2010, statement of comprehensive income for the year ended 31 December 2010 and statement of financial position at 31 December 2010 have been reconciled to IFRS, along with explanations of the resulting transitional adjustments.

Reconciliation of statement of financial position at 1 January 2010:

	Notes		Canadian GAAP		Effect of transition to IFRS		IFRS
Assets							
Current							
Cash and cash equivalents		$	5,387	$		$	5,387
Derivative financial asset			61				61
Accounts receivable, trade			4,000				4,000
Prepaid expenses and other receivables			768				768
			10,216				10,216
Non-current							
Long-term investments			2,418				2,418
Property and equipment			10,629				10,629
Intangible asset			300				300
			13,347				13,347
Total assets		$	23,563	$		$	23,563
Liabilities							
Current							
Accounts payable and accrued liabilities		$	4,745	$		$	4,745
Other employee benefits			160				160
Bank indebtedness			4,276				4,276
			9,181				9,181
Non-current							
Other employee benefits	a		1,126		(473)		653
			1,126		(473)		653
Total liabilities			10,307		(473)		9,834
Equity							
Contributed capital	b		806		(806)		-
Retained earnings			12,450		1,279		13,729
Total equity			13,256		473		13,729
Total liabilities and equity		$	23,563	$	-	$	23,563

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

Reconciliation of statement of comprehensive income for the year ended 31 December 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenues				
Pilotage charges		$ 59,117	$	$ 59,117
Interest and other revenues		143		143
		59,260		59,260
Expenses				
Contract pilots' fees		35,560		35,560
Operating costs of pilot boats	a	6,718	24	6,742
Salaries and benefits	a	5,066	30	5,096
Transportation and travel		4,885		4,885
Pilots' training		1,513		1,513
Depreciation – property and equipment		800		800
Professional and special services		380		380
Computer services		296		296
Rentals		255		255
Interest expense		159		159
Utilities, materials and supplies		149		149
Amortization – intangible asset		92		92
Communications		85		85
Repairs and maintenance		63		63
		56,021	54	56,075
Profit for the year		3,239	(54)	3,185
Other comprehensive income				
Actuarial loss on other employee benefits	a	-	(138)	(138)
		-	(138)	(138)
Total comprehensive income		$ 3,239	$ (192)	$ 3,047

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

Reconciliation of statement of financial position at 31 December 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current				
Cash and cash equivalents		$ 6,805	$	$ 6,805
Derivative financial asset		13		13
Accounts receivable, trade		4,624		4,624
Prepaid expenses and other receivables		976		976
		12,418		12,418
Non-current				
Long-term investments		3,059		3,059
Property and equipment		11,282		11,282
Intangible asset		280		280
		14,621		14,621
Total assets		$ 27,039	$	$ 27,039
Liabilities				
Current				
Accounts payable and accrued liabilities		$ 5,713	$	$ 5,713
Other employee benefits		207		207
Bank indebtedness		3,632		3,632
		9,552		9,552
Non-current				
Other employee benefits	a	992	(281)	711
		992	(281)	711
Total liabilities		10,544	(281)	10,263
Equity				
Contributed capital	b	806	(806)	-
Retained earnings		15,689	1,087	16,776
Total equity		16,495	281	16,776
Total liabilities and equity		$ 27,039	$ -	$ 27,039

Notes to reconciliations of previous Canadian GAAP to IFRS

(a) Other employee benefits

The Authority elected to apply the IFRS 1 employee benefits exemption. Accordingly, cumulative net actuarial gains of $550 were recognized as a credit to retained earnings as at 1 January 2010.

Under IFRS, the Authority's accounting policy is to recognize the defined benefit obligation for the non-vesting sick leave benefits earned by employees. Under Canadian GAAP, the Authority did not recognize the defined benefit obligation for the non-vesting sick leave benefits earned by employees. Accordingly, the defined benefit obligation for non-vested sick leave benefits of $77 was recognized as a charge to retained earnings as at 1 January 2010.

Under IFRS, the Authority's accounting policy is to recognize the actuarial gains and losses in other comprehensive income. Under Canadian GAAP, the Authority recognized actuarial gains and losses in profit or loss over the employees' remaining service period.

(b) Contributed capital

Under IFRS, the Authority's accounting policy is to recognize government grants in profit or loss over the periods in which the Authority recognizes as expenses the related costs for which the grants are intended to compensate. Under Canadian GAAP, the Authority recognized the government grants representing the values assigned to property and equipment transferred from the Government of Canada in 1972 and the cost of property and equipment financed from previous parliamentary appropriations as contributed capital. Accordingly, the contributed capital of $806 was recognized as a credit to retained earnings as at 1 January 2010.